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**THIRTY-FIRST
ANNUAL
REPORT**

**TO THE SHAREHOLDERS OF
TRANSCONTINENTAL RESOURCES LIMITED.**

The audited consolidated financial statements of your Company for the year ended June 30, 1971, are submitted herewith for your consideration.

The year end of your Company has been changed to June 30th to facilitate the preparation of the annual consolidated statements.

ATKINS & DURBROW LTD.:

During the past year your Company acquired 2,402,956 shares of Atkins & Durbrow Ltd. at a cost of \$948,500. This represents 96% of the issued capital of that Company.

Your Directors are pleased to report net earnings of Atkins & Durbrow Ltd. of \$213,043.

The inventory of peat moss available for sale in the spring is 293,000 bales. This compares with 355,000 bales last year and another profitable year is expected.

OIL INTEREST—REAL ESTATE—SECURITIES:

The Oil Interest in the Hondu Mitsue Field has been sold to Atkins & Durbrow Ltd. for the sum of \$250,332. Oil income is again showing a substantial increase and will total \$39,000 this calendar year.

The *Commercial Building* in Prince Rupert is leased to Seaway Restaurants Ltd. and shows a return exceeding 16%.

Securities—The major portion of your Company's investment portfolio is listed for your inspection:

8,055 shares—Ranger Oil (Canada) Ltd.

\$40,290.00 —Ranger Oil (Canada) Ltd.
Convertible 6% Note

15,200 shares—Coast Copper Mines Ltd.

1,300 shares—International Nickel Co. Ltd.

53,500 shares—Giant Mascot Mines Ltd.

GENERAL BUSINESS:

The agreements covering the sales of the shares of Blue Ledge Mines Inc. and New Taku Mines Ltd. are in good standing.

An agreement is being considered regarding the acquisition of the majority interest in a group of claims in Northern British Columbia.

Your Directors continue to look at varied business investments with an aim to develop the Company's status to that of an industrial.

Submitted on behalf of the Board of Directors,

FRANK B. KILSHAW,
President.

Vancouver, B.C.
December 7th, 1971.

TRANSCONTINENTAL RESOURCES LIMITED

and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME

	Six months ended June 30, 1971	Year ended December 31, 1970
Sales, net	\$ 913,758	—
Cost of sales	420,078	—
Gross profit	493,680	—
Selling, administrative and general expenses	133,551	\$ 22,176
Loss on sale of securities, net	64,304	26,417
Other income less other expenses	(15,999)	(42,402)
	181,856	6,191
Income (loss) before income taxes and minority interest	311,824	(6,191)
Income taxes	181,580	—
Income (loss) before minority interest	130,244	(6,191)
Minority interest in net income of subsidiary companies	7,701	—
Net income (loss) for the period	\$ 122,543	\$ (6,191)
Earnings (loss) per share	\$.025	\$ (.001)

CONSOLIDATED STATEMENT OF DEFICIT

	Six months ended June 30, 1971	Year ended December 31, 1970
Balance at beginning of period	\$ 743,563	\$ 737,372
Net income (loss) for the period	122,543	(6,191)
Balance at end of period	\$ 621,020	\$ 743,563

CONSOLIDATED BALANCE SHEET

(with comparative figures for 1970)

ASSETS

Current Assets

	1971	1970
Cash, including short-term deposits	\$ 301,850	\$ 47,074
Accounts and accrued interest receivable	382,238	24,224
Inventories, at the lower of cost and net realizable value	85,897	—
Prepaid expenses	3,563	—
	<u>773,548</u>	<u>71,298</u>

Shares, Advances and Other Interests

at cost less amounts written off (note 2)	<u>764,824</u>	<u>1,930,479</u>
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Fixed Assets and Preproduction and Development Expenses

(notes 3 and 4)	<u>356,343</u>	<u>72,409</u>
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Other Assets

Excess of purchase price paid over net book value of subsidiary companies at dates of acquisition	136,910	—
Organization expenses	1,343	—
	<u>138,253</u>	<u>—</u>
	<u>\$2,032,968</u>	<u>\$2,074,186</u>

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Transcontinental as at June 30, 1971, and the consolidated statements of income for the six months then ended. Our examination of Transcontinental included a general review of the accounting procedures and such tests as we considered necessary in the circumstances. For those subsidiaries, such enquiries and examinations as we considered necessary for the purpose of consolidation.

In our opinion these consolidated financial statements represent fairly the financial position of Transcontinental as at June 30, 1971 and the results of their operations and the cash flows for the six months then ended in accordance with generally accepted accounting principles.

November 25, 1971

RESOURCES LIMITED

(In accordance with the laws of Ontario)

Companies (note 1)

SHEET — JUNE 30, 1971

(As at December 31, 1970)

LIABILITIES

Current Liabilities

Bank loan, secured by pledge of certain marketable securities	\$ 70,000	\$ 194,300
Accounts payable and accrued liabilities	109,034	201,852
Income taxes payable	134,938	—
Advances from affiliated companies	16,061	—
Advances from unconsolidated subsidiary company— Atkins & Durbrow Ltd. (note 1)	—	175,000
Debentures not presented for redemption	9,572	—
Current portion of long-term debt	7,500	—
	<u>347,105</u>	<u>571,152</u>

Long-Term Debt

Bank of Montreal capital loan, payable by annual instalments of \$10,000 in 1972 and 1973	20,000	—
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Interest of Minority Shareholders in Subsidiary Company

Atkins & Durbrow Ltd.	40,286	—
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SHAREHOLDERS' EQUITY

Capital Stock

Authorized — 6,000,000 shares of no par value		
Issued — 4,733,759 shares	2,246,597	2,246,597

Deficit

	621,020	743,563
	<u>1,625,577</u>	<u>1,503,034</u>
	<u>\$2,032,968</u>	<u>\$2,074,186</u>

Approved by the Board

F. B. KILSHAW, Director

F. W. Schroeder, Director

TRANSCONTINENTAL RESOURCES LIMITED

Transcontinental Resources Limited and subsidiary companies have audited the financial statements of Resources Limited and source and application of funds for the six months ended June 30, 1971. In connection with this audit, the auditors have examined the accounting records and other supporting evidence as well as the financial statements of which we are not the auditors, we have carried out such other procedures as we considered necessary in order to rely on the reports of the other auditors for the

present fairly the financial position of the companies as at June 30, 1971, and application of their funds for the period then ended, and that the same are based on a basis consistent with that of the preceding year.

THORNE, GUNN, HELLIWELL & CHRISTENSON

Chartered Accountants



CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Six months ended June 30, 1971	Year ended December 31, 1970
<i>Source of Funds</i>		
Operations		
Net income (loss) for the period	\$ 122,543	\$ (6,191)
Items not involving current funds		
Depreciation, depletion and amortization	45,753	—
Loss on sale of securities, net	64,304	26,417
Gain on sale of property, plant and equipment.....	4,589	—
Minority interest in net income of subsidiary companies	7,701	—
Exploration expenditures written off	—	32,978
	244,890	53,204
Working capital of subsidiary company		
Atkins & Durbrow Ltd. at date of acquisition	574,745	—
Sale of shares		
Subsidiary company	87,806	—
Other companies	26,040	76,878
Repayment of advances		
Subsidiary companies	32,186	(2,436)
Associated and other companies	3,724	(18,285)
	969,391	109,361
<i>Application of Funds</i>		
Purchase of shares		
Subsidiary company	3,156	940,201
Other companies	—	68,678
Purchase of fixed assets and other, net	16,395	42,650
Reduction of pension liability	16,043	—
Principal due within one year on long-term debt	7,500	—
	43,094	1,051,529
Increase (decrease) in working capital	926,297	(942,168)
Working capital (deficiency) at beginning of period	(499,854)	442,314
Working capital (deficiency) at end of period	\$ 426,443	\$ (499,854)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 1971

1. BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Transcontinental Petroleum Limited (wholly-owned) and the consolidated accounts of Atkins & Durbrow Ltd. (96.14% owned). The accounts of the other wholly-owned subsidiary companies, Transcontinental Securities Limited and Yukon Assay Services Limited, have not been included. These companies are dormant and are carried at nominal value.

The accounts of Atkins & Durbrow Ltd. and its wholly-owned subsidiary companies were not included in the December 31, 1970 consolidated financial statements. As control of this company and its subsidiary companies was not acquired until December 1970, for accounting purposes control is deemed to have been acquired on January 1, 1971.

Current assets and liabilities of Atkins & Durbrow Ltd's subsidiary companies operating in the United States have been converted to Canadian dollars at the current rate of exchange. Fixed assets have been converted at the rate of exchange existing at the time when purchased and income and expense at the average rate of exchange over the period.

The excess of the net book value of Atkins & Durbrow Ltd's wholly-owned subsidiary, Atkins & Durbrow (N.B.) Ltd. at the date of acquisition, over the cost of the shares thereof, amounted to \$30,453 and has been deducted on consolidation from the unamortized preproduction and development expenses.

No provision has been made for any income tax charge to which undistributed earnings of U.S. subsidiaries may be subject to when remitted to the parent company, as the amount of earnings which may be transferred in the future and the rates of tax which will be applicable at that time are not known. Such taxes will be reflected only at the time of actual dividend remittance.

2. SHARES, ADVANCES AND OTHER INTERESTS

	1971	1970
Marketable securities, at cost		
(market value 1971 - \$599,280; 1970 - \$571,336)	\$ 465,097	\$ 586,629
Unlisted shares	287,034	287,034
Advances to associated and other mining companies	17,273	20,997
Unconsolidated subsidiary companies (note 1)		
Advances	—	32,186
Shares	7	1,001,969
Interest in oil leases and gas plant	242,141	249,127
Exploration expenditures deferred	48,272	47,537
	<u>1,059,824</u>	<u>2,225,479</u>
Less allowance for decline in value	295,000	295,000
	<u>\$ 764,824</u>	<u>\$1,930,479</u>

With the exception of marketable securities, all items are valued at cost, less amounts written off.

3. FIXED ASSETS, PREPRODUCTION AND DEVELOPMENT EXPENSES

	Original cost	Accumulated depreciation, depletion and amortization	Net book value
The details are as follows:			
Land	\$ 32,908	—	\$ 32,908
Bogs (note 4)	127,564	\$ 35,512	92,052
Buildings	178,118	61,421	116,697
Machinery and equipment	191,692	160,805	30,887
Vehicles	124,662	70,058	54,604
	<u>654,944</u>	<u>327,796</u>	<u>327,148</u>
Preproduction and development expenses (note 1)	87,859	58,664*	29,195
	<u>\$742,803</u>	<u>\$386,460</u>	<u>\$356,343</u>

* Figure includes the \$30,453 referred to in note 1 above.

4. PEAT BOG LEASE

A subsidiary company of Atkins & Durbrow Ltd., Atkins & Durbrow (N.B.) Ltd., currently leases its peat bog from the Government of New Brunswick, and, under the terms of this lease, which expires in May 1991, the subsidiary pays to the lessor a royalty of \$.20 per ton of peat extracted and a nominal rental of \$13.20 per square mile per annum.

5. OTHER STATUTORY INFORMATION

Direct remuneration of the companies' directors and senior officers (including the five highest paid employees) amounted to \$63,000.

Directors:

W. B. MILNER
R. H. TUPPER, Q.C.
G. E. WOOTTEN
F. W. SCHROEDER
W. W. DENNIS
D. E. MAGEE
J. M. PIERCE
F. B. KILSHAW
J. R. MILNER

Officers:

F. B. KILSHAW, President
J. R. MILNER, Vice-President
F. W. SCHROEDER, Treasurer
D. E. MAGEE, Secretary

Offices:

Suite 401, 1033 Davie Street
Vancouver 5, British Columbia
Suite 301,
394 Bay Street,
Toronto 1, Ontario

Listed:

VANCOUVER STOCK EXCHANGE

Auditors:

THORNE, GUNN, HELLIWELL & CHRISTENSON
Toronto Dominion Centre
Toronto 3, Ontario

Transfer Agent and Registrar:

CROWN TRUST COMPANY
302 Bay Street, Toronto, Ontario
and
455 Howe Street, Vancouver, B.C.

